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March 1, 2010

ARIZONA CORPORATION COMMISSION
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Arizona Corporation Commission
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Chairman Kristin K. Mayes
Commissioner Gary Pierce
Commissioner Paul Newman
Commissioner Sandra D. Kennedy
Commissioner Bob Stump

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RE: Arizona Public Service Company -- Application for Approval of Its AZ Sun Program
Docket No. E-01345A-09-0338

Dear Chairman Mayes and Commissioners:

On October 16, 2009, Arizona Public Service Company (APS) requested approval of its AZ Sun program. Using a competitive process, APS would acquire and own several utility-scale photovoltaic (PV) projects totaling 100 MW. These PV resources would be constructed over a period of several years, with the first unit coming on line in 2011. The costs of the PV resources would be recovered through the Renewable Energy Standard adjustor until they are recovered in base rates.¹ On February 10, 2010, Staff issued its recommendation in this matter. Western Resource Advocates (WRA) supports Staff's recommendation and urges the Commission to approve Staff's recommended order.

Large PV projects can and should be among Arizona's major power generation resources because they are not subject to fuel price uncertainty or uncertainty about the cost of complying with future regulation of air emissions, in contrast to fossil-fueled generation. PV is a reliable, well-understood technology that is readily installed and is currently experiencing rapid decreases in cost.² Utility-scale PV resources are becoming key generation resources worldwide. Table 1 lists some of these projects. The AZ Sun proposal is an important addition to the portfolio of renewable resources serving Arizona consumers.

Just as important is the timely recovery of APS' costs for the PV projects. APS' proposed method of cost recovery is consistent with the settlement agreement approved by the Commission in Decision No. 71448. WRA is a signatory to the settlement. Among other things, Section 15 of the settlement agreement contemplates that APS would acquire utility-scale PV resources and that all reasonable and prudent expenses incurred by APS pursuant to the renewable energy section of the agreement would be

¹ Under the settlement agreement approved in Decision No. 71448, no new base rates will be effective before July 1, 2012.

² In its filing identifying the top three renewable transmission projects (Docket No. E-00000A-09-0066), APS estimated the price of central station PV to be about \$130 per MWh (Attachment E, slide 11).

recoverable through a renewable energy adjustment mechanism, the power supply adjustor, or the transmission cost adjustor, as appropriate.³ These expenses include the carrying costs of any capital investments by APS in renewable energy projects⁴ Without timely cost recovery through the Renewable Energy Standard adjustor, the balance achieved in the settlement agreement is compromised. Some important renewable energy projects sought by WRA and other parties could be delayed or foregone because of potential financing difficulties due to uncertain cost recovery.

Thank you for your consideration of this matter.

Sincerely,



David Berry
Chief of Policy Analysis
Energy Program

cc: *electronic copies to service list*

Table 1. Examples of Large Scale Photovoltaic Projects

Project & Location	MW	Notes
Parque Fotovoltaico, Olmedilla de Alarcon, Spain	60	
Moura, Portugal	46	Additional capacity planned
Waldpolenz, Germany	40	
Jumilla, Spain	23	
Sempra, Boulder City, NV (Copper Mountain)	48	Planned to be in service in 2010
Cimarron, NM	30	Tri-State G&T: planned to be on line in 2010
DeSoto Next Generation Energy Center, FL	25	FPL project completed October 2009
SRP, AZ	20	Planned community power project on line in 2011
Alamosa, CO	17	SunPower project to be completed by end of 2010
Sempra, Boulder City, NV (El Dorado)	10	Operational; power sold to PG&E
Sun Edison, Alamosa, CO	8.22	Operational; power sold to Xcel Energy

³ Cost recovery for the PV systems through the power supply adjustor is not applicable because the power supply adjustor pertains to fuel costs and purchased power costs. See Staff's proposed order, paragraphs 16 and 17.

⁴ A rough estimate of the rate impact of AZ Sun on the RES surcharge is as follows: In 2012, the revenue requirement of the PV systems is projected by APS to be \$31.3 million. (This projection may be high given APS' cost projection in Docket No. E-00000A-09-0066 cited in note 2 above). APS projected retail sales of 29,825,980 MWh in 2012. The PV revenue requirements per MWh of sales is \$0.00105 per kWh. The actual rate impact will depend on the monthly surcharge limits. In Decision No. 71459, the Commission set the 2010 RES adjustor rate at \$0.0086620 per kWh. Of course, after the costs of the PV projects are recovered through base rates, they would no longer be included in the RES adjustor.